MONTANA BOARD OF HOUSING

ANNUAL INFORMATION STATEMENT

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This Annual Information Statement is provided for the purpose of presenting current information about the Montana Board of Housing.

OCTOBER 1, 1987

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

THE BOARD

The Montana Board of Housing (the "Board"), created by the Montana Housing Act of 1975, as amended (the "Act"), is an agency of the State of Montana (the "State") and operates within the Department of Commerce of the State for administrative purposes.

The powers of the Board are vested by the Act in seven board members who are appointed by the Governor, subject to confirmation by the State Senate. The term of office for a majority of the members of the Board coincides with the four-year term of the office of the Governor; the remaining Board members serve four-year terms which expire in the middle of the Governor's term. The members of the Board elect a chairman and such other officers as they may determine. Each Board member serves until his or her successor is appointed, confirmed by the Senate and takes office.

The members and officers of the Board, the expiration dates of their respective terms of office and their occupations are set forth below.

Name	Position	Term Expires January	Occupation
Joan Bennett	Board Member and Chairman	1989	Vice President and Secretary of Bennett Motors; Member of Neighborhood Housing Services of Great Falls.
Bruce W. Moerer	Board Member and Vice Chairman	1989	General Counsel, Montana School Boards Association, Helena.
John D. Buchanan	Board Member and Secretary	1991	President and Chairman of the Board of Fidelity Savings and Loan Association of Great Falls; President and Chairman of Buchanan Enterprises and Buchanan Construction.

Michael J. Kennedy, Jr.	Board Member	1989	Billings City Councilman; Member of City Council Planning Board; Chairman, Plat Review Committee.
Howard Rosenleaf	Board Member	1991	Organizer, HERE Local 45, Butte; Business Agent for Carpenters Local 88, Anaconda; Executive Board, State Council of Carpenters.
George Swords	Board Member	1989	Executive Director, Montana Manufactured Housing Association, Billings.
Brad Walterskirchen	Board Member	1991	Vice President and Cashier, Valley Bank of Kalispell, Kalispell, Montana.

John D. Buchanan, Howard Rosenleaf, and Brad Walterskirchen were reappointed to the Board on March 3, 1987.

THE STAFF

RICHARD KAIN, Administrator, joined the Board staff in August, 1986, as Assistant Administrator and was appointed Administrator on April 9, 1987. Mr. Kain served the Montana Board of Investments as a Portfolio Manager for thirteen years. He has a B.A. degree in Accounting from Carroll College and is a Certified Public Accountant.

JAY McLEOD served as Administrator of the Board from July, 1983, until he retired on March 27, 1987.

LINDA FORREY, who has served on the Board staff since February, 1976, has been Single Family Program Officer since 1980.

DAVID KRAFT serves as Comptroller of the Board and has held this position since September, 1980. Mr. Kraft previously served as a Fiscal Officer of the Montana State Department of Institutions. He has a B.S. degree in Accounting from Montana State University.

The Board is authorized a full-time staff of thirteen persons including those named above, and receives support services from the State Department of Commerce. Additional personnel may be employed as determined by the Board in conjunction with the Department of Commerce.

The Board's auditors are Anderson ZurMuehlen & Co., P.C., independent certified public accountants, Helena, Montana, who audit its financial statements and perform other accounting services. Jackson, Murdo, Grant & Larsen, Helena, Montana, serve as the Board's general counsel. Preston, Thorgrimson, Ellis & Holman, Spokane and Seattle, Washington, serve as the Board's bond counsel. The Trustees are First Interstate Bank of Denver, N.A., First Trust Company of Montana, and Norwest Bank Minneapolis, N.A.

SINGLE FAMILY PROGRAMS

The Board initiated its Single Family Program in 1977 for the purpose of improving the ability of persons and families of lower income to purchase homes within the State. The Single Family Program has been financed through the issuance of fourteen issues of bonds secured under two separate trust indentures. Five issues of bonds are secured by an indenture dated as of March 10, 1977 (the "1977 Indenture"). Nine issues are secured by an indenture dated as of August 16, 1979 (the "1979 Indenture"). The Board currently expects to issue additional bonds to finance future Single Family Program operations secured by either the 1977 Indenture or the 1979 Indenture. In addition, the Board expects to finance additional mortgage loans by recycling prepayments and other amounts held under both the 1977 and 1979 Indentures to the extent that prevailing mortgage rates permit such recycling to be achieved on an efficient basis.

All of the mortgage loans which have been financed under the Single Family Program have been newly originated, twenty-five or thirty year mortgages, which are either insured by the Federal Housing Administration (FHA) or guaranteed by the Veteran's Administration (VA).

The basic procedures used for origination and servicing of mortgage loans have been essentially the same since the inception of the Single Family Program. Specific program requirements and procedures have been revised and augmented from time to time to give effect to the Board's experience under the program and to adjust to changes in federal and state laws and economic and industry conditions. Current mortgage loan eligibility standards for the Single Family Program are described below under "Mortgage Loan Eligibility."

Until 1985 the Board reserved available funds for use by specific lenders and held a Lender Commitment Fee against the lender's obligation to deliver mortgage loans in the amount reserved. Currently, the Board makes commitments to purchase mortgage loans from lenders on a first come first served basis, and under this procedure it charges a Reservation Fee.

Since its inception, 163 lenders have been approved to originate mortgage loans under its Single Family Program. Through June 20, 1987, a total of 12,103 mortgage loans have been financed in 186 communities throughout the State. There are currently 121 lenders acting as servicers for mortgage loans pledged under the 1977 and the 1979 Indentures. Appendix A provides a list of the five largest servicers and the percentage of mortgage loans serviced by each such servicer. In addition, Appendix A shows the volume of mortgage loans which have been made in the five principal counties of the State.

Lenders must be authorized to engage in the business of making mortgage loans in the State, must maintain an office in the State and must otherwise be approved by the Board. All Lenders must be FHA and VA approved mortgagees. Lenders may service their own mortgage loans or assign the servicing function to another servicer approved by the Board.

Within each indenture several series of bonds have been issued. Assets and liabilities within each indenture are held jointly. That is, all the mortgages held under the 1977 Indenture and all the funds and accounts within the 1977 Indenture jointly secure all the outstanding bonds under the 1977 Indenture. All mortgages held under the 1979 Indenture and all the funds and accounts within said 1979 Indenture jointly secure all the outstanding bonds under said 1979 Indenture. All mortgages held under the 1978 Multifamily Indenture and all the funds and accounts within said 1978 Multifamily Indenture jointly secure all the outstanding bonds under said 1978 Multifamily Indenture. Within the two single family indentures, bonds are generally redeemable at par at any time from unused bond proceeds and from mortgage loan prepayments. Within certain bond series some maturities are protected from such calls and some maturities are prioritized for such calls.

All the bonds issued under the 1977 and 1979 Indentures are general obligations of the Board. The bonds and notes of the Board are not a debt of the State of Montana and neither the faith nor the credit of the State or any political subdivision thereof is pledged to the payment of such bonds and notes. The Board has no taxing power.

THE 1977 INDENTURE

The Board's Single Family Program was begun in 1977 with the sale of the first two series of the five series of Single Family Mortgage Bonds (Federally Insured or Guaranteed Loans) (the "Single Family I Program"), which are secured under the 1977 Indenture, in the aggregate initial principal amount of $110,130,000. As of June 30, 1987, 1,931 mortgage loans (of which, 48 are from recycled prepayments) have been originated under the 1977 Indenture, in an aggregate initial principal amount of $65,306,795. The 1987 Series B Bonds were the last bonds sold under the 1977 Indenture and the Board may issue additional bonds under that indenture.

In conjunction with the initial use of bond proceeds under the 1977 Indenture, mortgage loans were financed which had thirty year terms. At June 30, 1987, $1,998,946 of mortgage loans have been financed with prepayments; these mortgage loans had original terms of twenty-five years ($1,514,930) and thirty years ($484,016).

MORTGAGE PORTFOLIO:

Portfolio Summary (as of June 20, 1987):

Mortgage Loan Rate	Number of Loans Purchased	Original Principal Balance Purchased	Number of Loans Outstanding	Outstanding Principal Balance
6.875%	960	$32,255,241	799	$23,361,891
7.125	633	20,633,703	465	13,216,824
7.500	338	12,417,851	298	9,814,839
TOTAL	1,931	$65,306,795	1,562	$46,393,554

At September 20, 1987, the percentage of the total outstanding principal balance of mortgage loans insured by FHA was 64.47% and guaranteed by the VA was 35.53%.

Prepayments and Other Terminations:

Mortgage loans have been prepaid at a rate lower than that originally assumed in the structured principal maturity schedule of the bond issues, and the shortfall has been made up by higher-than-anticipated investment earnings.

The following table provides current information concerning the assumed and actual experience of prepayments and other terminations of mortgage loans held under the 1977 Indenture:

	Recent Prepayments		Total Prepayments Since Inception	
Series	Assumed 10/2/86 to 10/1/87 (twelve months)	Received 7/1/86 to 6/30/87 (twelve months)	Assumed to 10/1/87	Received to 6/30/87
1977A	$ 494,919	$ 948,011	$ 4,035,632	$ 4,809,854
1977B	810,000	1,295,682	6,325,000	4,593,853
1978A	309,000	512,182	2,230,000	1,331,181
1987A	-0-	-0-	-0-	-0-
TOTAL	$1,613,919	$2,755,875	$12,590,632	$10,734,888

Although there are a number of data bases available which provide a historical record of the incidence of advance terminations for various portfolios of mortgage loans, it is not possible to predict with any degree of accuracy the amount of prepayments which the Board will experience in any given period, due to the variety of economic, financial market and demographic factors which affect such prepayments. Pursuant to the industry, prepayments include any amount received or recovered which is determined by the Board to reduce or eliminate the principal amount of a mortgage loan, other than scheduled amortization payments applicable to principal reduction. Should prepayments occur in the future at rates higher than those assumed in establishing the maturities for the above issues, the payment of debt service on the bonds may depend upon the Board's ability to use the resulting funds to purchase mortgage loans or other investments with yields sufficient to make such debt service payments. If reinvestment of prepayments in mortgage loans or interim investment obligations is not feasible, the Board may use the payments to purchase or redeem outstanding bonds or for such other purposes as are permitted under the 1977 Indenture. To the extent that the Board continues to experience prepayments at rates lower than those assumed in establishing the maturities for the above series, payment of debt service may depend on the use of funds in the Mortgage Reserve Account or Debt Service Reserve Account. However, scheduled principal assumed to be retired through prepayments may continue to be provided from excess investment income or may be available due to the receipt of additional mortgage income relating to mortgage loans remaining outstanding which were assumed to terminate.

Delinquencies:

Delinquent Single Family I mortgage loans, as of June 30, 1987, were as follows:

Board		Montana*		National Average*	
Days Delinquent	% of Total Loans	Days Delinquent	% of Total Loans	Days Delinquent	% of Total Loans
30-59	2.11%	30-59	2.97%	30-59	3.10%
60-89	.70%	60-89	1.14%	60-89	.74%
90 & over	.13%	90 & over	1.48%	90 & over	.88%

*Statistics as of June 30, 1987 from the Mortgage Bankers Association.

Liquidations and Foreclosures:

As of June 30, 1987, of the 1,562 outstanding mortgage loans under the 1977 Indenture, seventeen (1.09%) mortgage loans had been referred by the Board, upon servicer recommendation, to Board Counsel for liquidation processing (loans in-process will not necessarily lead to foreclosure). At June 30, 1987, the Board had five mortgage loans in the principal amount of $153,693 in foreclosure. The Board has experienced no losses of principal in connection with liquidation or foreclosure of mortgage loans under the 1977 Indenture.

FISCAL:

Summary of Assets:

The following table provides summary information with respect to the status of assets pledged under the 1977 Indenture as of June 30, 1987:

Mortgage Loans, net	$46,418,590
Cash and Temporary Investments (1)	26,791,980
Debt Service Reserve Fund (2)	7,540,000
Mortgage Reserve Fund (3)	810,100
Revenue Fund (3)	379,608
Receivables	707,909
TOTAL ASSETS	$82,648,187

(1) Includes proceeds of the 1987 Series A Bonds issued in June of 1987.

(2) Invested in authorized investments with maturities from 1987 to 2009.

(3) Invested in authorized investments having maturities of less than one year.

Summary of Bonds Payable (in thousands):

	Original Amount	Outstanding Balance (as of June 30) 1987	1986
1977 Series A:			
Serial Bonds (8.0% to 5.3%) due 1978-1992	$10,145	$ 4,150	$ 4,925
Term Bonds (5.88%) due 2008	11,325	11,325	11,325
	21,470	15,475	16,250
Less Premiums, Discounts, and Costs of Issuance	(635)	(298)	(316)
	20,835	15,177	15,934
1977 Series B:			
Serial Bonds (8.0% to 5.10%) due 1978-1992	16,310	6,985	8,215
Term Bonds (5.75%) due 2008	18,750	18,750	18,750
	35,060	25,735	26,965
Less Premiums, Discounts, and Costs of Issuance	(675)	(353)	(375)
	34,385	25,382	26,590
1978 Series A:			
Serial Bonds (8.0% to 6.10%) due 1979-1997	8,565	5,175	5,660
Term Bonds (6.4%) due 2003	2,305	2,305	2,305
Term Bonds (6.5%) due 2009	2,730	2,730	2,730
	13,600	10,210	10,695
Less Premiums, Discounts, and Costs of Issuance	(317)	(142)	(154)
	13,283	10,068	10,541
1987 Series A:			
Serial Bonds (5.3% to 8.2%) due 1988-2000	6,400	6,400	-0-
Term Bonds (8.125%) due 2016	11,220	11,220	-0-
Term Bonds (8.625%) due 2018	2,380	2,380	-0-
	20,000	20,000	-0-
Less Premiums, Discounts, and Costs of Issuance	(564)	(564)	-0-
	19,436	19,436	-0-
TOTAL	$87,939	$70,063	$53,065

Based on the above, as of June 30, 1987, the ratio of total assets to total liabilities was 1.1628729.

Summary of Revenues, Expenses, and Changes in Fund Balance (in thousands):

	Year Ended June 30,				
	1987	1986	1985	1984	1983
Revenues:					
Interest on Loans..	$ 3,404	$ 3,634	$ 3,779	$ 3,908	$ 4,024
Fee Income and Other Income.....	5	6	5	17	3
Interest on Investments......	999	945	949	945	908
	4,408	4,585	4,733	4,870	4,935
Expenses:					
Interest...........	2,966	3,055	3,170	3,284	3,395
Servicing Fees.....	185	193	201	208	213
Amortization of Deferred Financing Costs........	52	55	58	60	63
General, Administrative and Trustee Costs....	93	76	65	80	75
	3,296	3,380	3,494	3,632	3,746
Excess of Revenues Over Expenses......	1,111	1,205	1,239	1,238	1,189
Fund Balances, Beginning.........	10,465	9,259	8,020	6,782	5,593
Fund Balances, Ending............	$ 11,576	$ 10,465	$ 9,259	$ 8,020	$ 6,782
Principal, Bonds & Notes Payable, Net of Premiums, Discounts, and Costs of Issuance..	$ 70,063	$ 53,065	$ 55,510	$ 58,003	$ 60,405

THE 1979 INDENTURE

Since 1979, the Board has financed the operations of the Single Family Program principally through the issuance of bonds secured under the 1979 Indenture. Nine series of bonds in the aggregate initial amount of $679,997,006 have been issued to date and the Board expects that future financings for the Single Family Program will be issued and secured under the 1979 Indenture.

On March 20, 1986, the Board adopted its Resolution No. 86-0320-S1 appointing First Interstate Bank of Denver, N.A., as Successor Trustee under the 1979 Indenture.

In conjunction with the initial use of bond proceeds under the 1979 Indenture, mortgage loans were financed which had twenty-five and thirty year terms. At June 30, 1987, $3,029,991.53 of mortgage loans have been financed with prepayments; these mortgage loans had original terms of thirty years.

MORTGAGE PORTFOLIO:

Portfolio Summary (as of June 20, 1987):

Mortgage Loan Rate	Number of Loans Purchased	Original Principal Balance Purchased	Number of Loans Outstanding	Outstanding Principal Balance
7.750%	2,056	$ 87,950,439	1,867	$ 73,540,593
9.750	3,114	144,710,824	2,772	125,780,050
9.875	996	49,031,607	834	39,387,826
10.000	2,025	105,646,878	1,734	87,470,521
10.375	1,320	66,484,029	1,176	57,524,003
12.500	661	27,842,130	201	7,239,545
TOTAL	10,172	$481,665,907	8,584	$390,942,538

At September 20, 1987, the percentage of the total outstanding principal balance of mortgage loans insured by FHA was 79.9% and guaranteed by the VA was 20.1%.

Prepayments and Other Terminations:

The following table provides current information concerning the assumed and actual experience of prepayments and other terminations of mortgage loans held under the 1979 Indenture:

Series	Recent Prepayments Assumed 6/2/86 to 6/1/87 (twelve months)	Recent Prepayments Received 7/1/86 to 6/30/87 (twelve months)	Total Prepayments Since Inception Assumed to 6/1/87	Total Prepayments Since Inception Received to 6/30/87
1979A	$2,552,700	$ 2,699,523	$ 8,657,900	$ 6,841,920
1980A	1,569,000	2,793,445	7,045,000	7,244,594
1982A	-0-	9,241,779	-0-	19,639,259
1983A	-0-	3,549,309	-0-	5,413,777
1983B	-0-	5,031,283	-0-	7,646,538
1983C	-0-	12,245,019	-0-	14,864,552
1984A	589,537	6,644,378	949,576	7,398,191
1985A	-0-	1,009,611	-0-	1,061,413
1985B	-0-	921,507	-0-	983,869
TOTAL	$4,711,237	$44,135,854	$16,652,476	$71,094,113

Although there are a number of data bases available which provide a historical record of the incidence of advance terminations for various portfolios of mortgage loans, it is not possible to predict with any degree of accuracy the amount of prepayments which the Board will experience in any given period, due to the variety of economic, financial market and demographic factors which affect such prepayments. Pursuant to the industry, prepayments include any amount received or recovered which is determined by the Board to reduce or eliminate the principal amount of a mortgage loan, other than scheduled amortization payments applicable to principal reduction. Should prepayments continue in the future at rates higher than those assumed in establishing the maturities for the above issues, the payment of debt service on the bonds may depend upon the Board's ability to use the resulting funds to purchase mortgage loans or other investments with yields sufficient to make such debt service payments. If reinvestment of prepayments in mortgage loans or interim investment obligations is not feasible, the Board may use the payments to purchase or redeem outstanding bonds or for such other purposes as are permitted under the 1979 Indenture. To the extent that the Board experiences prepayments at rates lower than those assumed in establishing the maturities for the above series, payment of debt service may depend on the use of funds in the Mortgage Reserve Account or Debt Service Reserve Account. However, scheduled principal assumed to be retired through prepayments may be provided from excess investment income or may be available due to the receipt of additional mortgage income relating to mortgage loans remaining outstanding which were assumed to terminate.

Delinquencies:

Delinquent Single Family II mortgage loans, as of June 30, 1987, were as follows:

Board		Montana*		National Average*	
Days Delinquent	% of Total Loans	Days Delinquent	% of Total Loans	Days Delinquent	% of Total Loans
30-59	2.62%	30-59	2.97%	30-59	3.10%
60-89	1.10%	60-89	1.14%	60-89	.74%
90 & over	1.30%	90 & over	1.48%	90 & over	.88%

*Statistics as of June 30, 1987 from the Mortgage Bankers Association.

Liquidations and Foreclosures:

As of June 30, 1987, of the 8,584 outstanding mortgage loans under the 1979 Indenture, 246 (2.87%) mortgage loans had been referred by the Board, upon servicer recommendation, to Board Counsel for liquidation processing (loans in-process will not necessarily lead to foreclosure). At June 30, 1987, the Board has 100 mortgage loans in the principal amount of $5,111,472 in foreclosure. As of June 30, 1987, the Board has experienced approximately $23,100 loss of principal in connection with liquidation or foreclosure of mortgage loans under the 1979 Indenture.

Bond Calls:

Because lenders did not deliver for purchase sufficient 12.5% mortgage loans, the Board, on June 1, 1983, called for redemption 23,190,000 principal amount of its 1982 Series A bond issue of $55,000,000. The lack of demand for the 12.5% mortgage money was caused by a substantial decline in mortgage interest rates during the period from August 1982 through April 1983. As a result of continuing mortgage loan prepayments the Board, on December 1, 1985, called $3,105,000 principal amount, on June 1, 1986, $2,455,000 principal amount, on December 1, 1986, $7,020,000 principal amount, on June 1, 1987, $6,030,000 principal amount, and on December 1, 1987, $2,260,000 principal amount of the 1982 Series A Bonds. It is expected that the Board will continue to call these bonds on a semiannual basis from mortgage loan prepayments.

At its May 22, 1986 meeting, the Board determined to call, on August 15, 1986, $33,373,604 principal amount of its $75,000,000 1985 Series B Bonds which provided for the purchase of mortgages with a 9.75% interest rate. The call was induced by the non-delivery of mortgage loans for purchase which, in turn, was attributable to a notable decline in interest rates beginning in late 1985 and continuing into 1986.

The 1985 Series B-1 and Series B-2 Bonds were initially issued in a short-term mode. The Series 1985 B-1 Bonds were remarketed on July 1, 1986 for an additional three-month period. On October 1, 1986, the 1985 Series B-1 and Series B-2 Bonds were redeemed.

The Board determined to call additional bonds as a result of mortgage loan prepayments under the 1979 Indenture as follows:

	Call Date and Principal Amount Called				
Series	1-1-87	4-1-87	6-1-87	10-1-87	12-1-87
1983A	$2,380,000	$1,280,000	$ 505,000	$1,060,000	$ -0-
1983B	3,620,000	1,235,000	950,000	1,275,000	405,000
1983C	4,060,000	2,425,000	2,345,000	5,005,000	1,020,000
1984A	150,000	415,000	2,220,000	2,415,000	-0-
1985A	75,000	430,000	115,000	335,000	-0-
1985B	205,000	210,000	137,629	370,000	-0-

FISCAL:

Summary of Assets:

The following table provides summary information with respect to the status of assets pledged under the 1979 Indenture as of June 30, 1987:

Program Fund	
Mortgage Loans Net of Unamortized Discounts	$386,783,722
Cash and Temporary Investments	23,146,790
Debt Service Reserve Fund (1)	55,080,746
Mortgage Reserve Fund (1)	4,829,759
Revenue Fund (2)	10,722,147
Receivables	6,550,651
TOTAL ASSETS	$487,113,815

(1) Invested in authorized investments with maturities from 1987 to 2014.

(2) Invested in authorized investments having maturities of less than one year.

Summary of Bonds Payable (in thousands):

	Original Amount	Outstanding Balance (as of June 30) 1987	1986
1979 Series A:			
Serial Bonds (5.10% to 6.10%) due 1981-1997	$55,270	$38,915	$43,085
Term Bonds (6.25%) due 2000	10,000	10,000	10,000
Term Bonds (6.60%) due 2011	34,730	34,730	34,730
	100,000	83,645	87,815
Less Unamortized Premiums, Discounts, and Costs of Issuance	(1,699)	(1,031)	(1,109)
	98,301	82,614	86,706
1980 Series A:			
Serial Bonds (9.0%) due 1982-2000	32,600	23,705	25,630
Term Bonds (9.0%) due 2012	17,400	17,400	17,400
	50,000	41,105	43,030
Less Unamortized Premiums, Discounts, and Costs of Issuance	(1,091)	(980)	(1,044)
	48,909	40,125	41,986
1982 Series A:			
Serial Bonds (8.5% to 13.0%) due 1984-1996	10,120	2,535	2,535
Term Bonds (13.5%) due 2002	14,005	5,605	9,030
Term Bonds (13.5%) due 2008	30,875	5,060	14,685
	55,000	13,200	26,250
Less Unamortized Premiums, Discounts and Costs of Issuance	(1,848)	(473)	(719)
	52,402	12,727	25,531
1983 Series A:			
Serial Bonds (5.25% to 9.50%) due 1984-1998	9,370	7,655	8,180
Term Bonds (9.75%) due 2003	6,810	6,650	6,810
Term Bonds (9.875%) due 2009	13,820	9,895	13,820
	30,000	24,200	28,810
Less Unamortized Premiums, Discounts, and Costs of Issuance	(982)	(640)	(818)
	29,018	23,560	27,992

	Original Amount	Outstanding Balance (as of June 30) 1987	1986
1983 Series B:			
Serial Bonds (8.0% to 9.20%) due 1991-1996	8,770	8,770	8,770
Term Bonds (9.50%) due 2003	18,170	18,170	18,170
Term Bonds (9.625%) due 2009	28,060	22,255	28,060
	55,000	49,195	55,000
Less Unamortized Premiums, Discounts, and Costs of Issuance	(1,313)	(921)	(1,117)
	53,687	48,274	53,883
1983 Series C:			
Serial Bonds (5.75% to 9.75%) due 1984-1996	50,040	42,770	45,705
Term Bonds (10.20%) due 2002	55,710	46,880	55,710
Capital Appreciation Bonds due 2010	9,248	13,442	12,111
	114,998	103,092	113,526
Less Unamortized Premiums, Discounts, and Costs of Issuance	(2,606)	(1,753)	(2,244)
	112,392	101,339	111,282
1984 Series A:			
Serial Bonds (7.0% to 10.0%) due 1986-1998	37,360	33,625	35,850
Term Bonds (10.375%) due 2004	33,795	31,010	33,795
Capital Appreciation Bonds due 2005	794	1,077	965
Capital Appreciation Bonds due 2010	3,053	4,167	3,727
	75,002	69,879	74,337
Less Unamortized Premiums, Discounts, and Costs of Issuance	(1,988)	(1,513)	(1,780)
	73,014	68,366	72,557
1985 Series A:			
Serial Bonds (5.5% to 9.0%) due 1986-1998	17,525	16,500	17,525
Term Bonds (8.25%) due 2007	5,380	4,760	5,380
Term Bonds (8.375%) due 2010	5,175	5,175	5,175
Term Bonds (9.375%) due 2015	6,670	6,670	6,670
Capital Appreciation Bonds (9.25%) due 2004	2,176	2,566	2,344
Capital Appreciation Bonds (9.75%) due 2016	382	455	414
PROFITS (9.75%) due 2013	2,691	3,202	2,911
	39,999	39,328	40,419
Less Unamortized Premiums, Discounts, and Costs of Issuance	(1,056)	(941)	(1,021)
	38,943	38,387	39,398

	Original Amount	Outstanding Balance (as of June 30) 1987	1986
1985 Series B, B-1 and B-2*			
Serial Bonds (5.70% to 8.0%) due 1987-1995	19,680	10,650	19,680
Term Bonds (9.25%) due 2005	6,645	3,680	6,645
Term Option Bonds (8.90%) due 2011	18,655	10,420	18,655
Term Bonds (9.375%) due 2017	21,250	11,355	21,250
Serial Capital Appreciation Bonds (8.90% to 9.25%) due 1996-2002	4,533	2,883	4,798
PROFITS (9.75%) due 2013	4,234	2,577	4,428
Serial Bonds (6.0%) due 1987-1996	4,270	-0-	4,270
Term Bonds due 2001	4,115	-0-	4,115
Term Bonds due 2006	6,605	-0-	6,605
Term Bonds due 2011	9,935	-0-	9,935
Term Bonds due 2017	20,075	-0-	20,075
Serial Bonds (5.75%) due 1987-1996	3,685	-0-	3,685
Term Bonds due 2001	3,585	-0-	3,585
Term Bonds due 2006	5,735	-0-	5,735
Term Bonds due 2011	8,655	-0-	8,655
Term Bonds due 2017	18,340	-0-	18,340
	159,997	41,565	160,456
Less Premiums, Discounts, and Costs of Issuance	(2,326)	(940)	(1,796)
	157,671	40,625	158,660
TOTAL	$664,337	$456,017	$617,995

* The 1985 Series B-1 and Series B-2 Bonds were initially issued in a short-term mode. The Series 1985 B-1 Bonds were remarketed on July 1, 1986 for an additional three-month period. On October 1, 1986, the 1985 Series B-1 and Series B-2 Bonds were redeemed.

Based on the above, as of June 30, 1987, the ratio of total assets to total liabilities was 1.060489.

Summary of Revenues, Expenses, and Changes in Fund Balance (in thousands):

	Year Ended June 30,				
	1987	1986	1985	1984	1983
Revenues:					
Interest on Loans..	$ 39,981	$ 38,655	$ 30,776	$ 20,747	$ 13,149
Fee Income and Other Income.....	58	1,422	1,947	2,166	1,249
Interest on Investments......	12,672	15,956	13,679	12,155	8,455
	52,711	56,033	46,402	35,068	22,853
Expenses:					
Interest...........	45,834	48,894	38,783	28,695	19,152
Servicing Fees.....	1,233	1,451	1,168	790	530
Amortization of Deferred Financing Costs........	1,192	1,173	522	383	244
Bond Redemption Expense..........	1,404	116			637
General, Administrative and Trustee Costs....	1,284	867	585	488	386
	50,947	52,501	41,058	30,356	20,949
Excess of Revenues Over Expenses......	1,764	3,532	5,344	4,712	1,904
Fund Balances, Beginning..........	26,020	21,788	16,444	11,082	9,178
Fund Transfers......		700		650	
Fund Balances, Ending............	$ 27,784	$ 26,020	$ 21,788	$ 16,444	$ 11,082
Principal, Bonds & Notes Payable, Net of Premiums, Discounts, and Costs of Issuance..	$456,017	$617,995	$434,119	$367,225	$256,561

MORTGAGE LOAN ELIGIBILITY

Introduction. The Board requires that each mortgage loan purchased (i) comply with the requirements of the Act and the Internal Revenue Code of 1986, including any applicable Treasury Regulations promulgated thereunder, (the "Code"), and be executed and recorded in accordance with existing law, (ii) be secured by a first mortgage lien on real property within the State, (iii) requires the payment of all taxes, assessments, water rates, sewer rents, and mortgage, casualty and hazard insurance premiums by escrow or other arrangements satisfactory to the Board and the Trustee, and gives the Board the right to make such payments when due and unpaid with the amount thereof being added to the debt secured by the lien of the mortgage, (iv) be made with respect to premises which are insured against fire and other hazards as required by the Board on policies designating the Board as loss payee, and (v) be insured by FHA for the unpaid principal amount of the mortgage loan or guaranteed by the VA to the full extent permitted under VA regulations. See "APPENDIX C - MORTGAGE INSURANCE AND GUARANTEES."

The Board may sell, assign or otherwise dispose of a mortgage loan (i) in default, (ii) in order to realize the benefits of mortgage insurance with respect to such mortgage loan, or (iii) to a lender in rescission of a sale to the Board under the Mortgage Purchase Agreement.

Income limitations. All Single Family Mortgage Loans purchased by the Board are made to persons and families of lower income pursuant to the Act and the Code. The Act defines persons and families of lower income as persons and families with insufficient personal or family incomes or other financial resources, who require assistance under the Act, as determined by the Board. This determination must take into consideration: (i) the total amount of the personal and family income, assets and other financial resources available for housing needs, (ii) the size of the family, (iii) the eligibility of persons and families under federal housing assistance programs of any type based on lower income or a functional or physical disability, (iv) the ability of persons and families to compete successfully in the normal housing market and to pay the amount at which private enterprise is providing decent, safe, and sanitary housing, (v) the availability and cost of housing in particular areas, and (vi) the needs of particular persons or families due to age or physical handicaps.

Section 143 of the Internal Revenue Code requires that all loans acquired with proceeds of bonds sold after August 15, 1986, be made to borrowers with a family income of 115% or less (140% or less in Targeted Areas as so defined in "Targeted Area requirement" below) of the area median gross income or state median gross income, whichever is greater. Taking into account the income tables released by the United States Department of Housing and Urban Development ("HUD") pursuant to Section 8 of the United States Housing Act of 1937 and applying the appropriate income adjustment within each area, income limits in the State of Montana by area are as follows:

Area/County	Income Limit	Area/County	Income Limit
Billings (MSA)	$34,500	Lewis & Clark	$31,625
Great Falls (MSA)	37,240	Mineral	36,540
Blaine	36,540	Missoula	39,620
Cascade	30,590	Pondera	32,890
Custer	31,165	Richland	33,580
Dawson	33,235	Rosebud	33,465
Deer Lodge	36,540	Sanders	36,540
Fallon	31,050	Silver Bow	36,540
Flathead	37,100	Town of Wyola	36,540
Hill	41,020	Yellowstone	34,500
		All other counties	30,015

Purchase price limitations. In addition, a mortgage loan must be made for the purpose of enabling a lower income person or family to acquire or construct (but not refinance) a home which is to be occupied as the principal residence of such person or family. The maximum selling price of all homes, in both Targeted and Non-Targeted Areas, has been established by the Board at $75,000 for new and existing housing. Such selling price is within the "safe harbor" limitations established by the Secretary of the Treasury pursuant to the Code. The selling prices are subject to change if the "safe harbor" limitations are revised. Income and eligibility standards must be reviewed at least annually and may be revised by the Board at any time.

Qualifying mortgages. As of August 15, 1986, the Code imposes additional significant restrictions on the Board in its financing of single family loans. Interest on obligations of a governmental unit such as the Board that are issued to finance single family residences are not included in gross income for federal income tax purposes only if certain requirements are met with respect to the terms, amount and purpose of the obligations, the use of funds generated thereby, the nature of the residence and mortgage, and the eligibility of the borrower executing the mortgage note. These restrictions include the following requirements (in Targeted Areas, certain of these requirements do not apply where specified below in "Targeted Area requirement"):

(i) the residence being financed must reasonably be expected by the Board to become the principal residence of the mortgagor within a reasonable time after the financing is provided, must not be primarily intended or expected to be used in a trade or business, and may not be used as an investment property or as a recreational home;

(ii) at least 95% of the lendable proceeds must be used to finance residences of borrowers who have not had a present ownership interest in a principal residence during the three-year period prior to the date on which the mortgage loan is executed;

(iii) family income of mortgagors must not exceed the amount determined under limitations prescribed in Section 143 of the Code (as explained in the "Income limitations" section above);

(iv) the acquisition cost must not exceed the amount determined under limitations prescribed in the Code (as explained in the "Purchase price limitations" section above);

(v) bond proceeds may not be applied to acquire or replace an existing mortgage, except for temporary initial financing; and

(vi) a mortgage may not be assumed unless the requirements described in (i) through (iv) above are met.

An issue of bonds is treated as meeting eligibility requirements of the Code only if (i) the issuer in good faith attempts to meet all of the mortgage eligibility requirements before the mortgages are executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make loans were devoted to finance residences which met all such requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, the Board is permitted to rely on an affidavit of the mortgagor and of the seller, and on the mortgage loan executed even though the relevant information in such affidavits and returns should ultimately prove to be untrue, unless the Board knows or has reason to believe that such information is false. The Code also requires that trust indentures, lender agreements and other relevant instruments contain restrictions permitting the financing of mortgage loans only in accordance with Code requirements.

The Board has provided procedures and requirements in the Mortgage Purchase Agreement and other Single Family Mortgage Program documents to ensure compliance with such mortgage eligibility requirements. Under the terms of the Mortgage Purchase Agreement, lenders are required to review each application for mortgage loan financing to assure that the mortgage loan will be eligible for financing under the Code. The Board will require each borrower to execute a sworn affidavit attesting to compliance with the mortgage eligibility requirements. Affidavits will also be required from the broker or real estate agent, if any, and seller of the property. The mortgage securing each mortgage loan subject to Code requirements provides that such mortgage loan is not assumable except upon prior written approval of the Board.

Additionally, the Board will require the lenders to follow interpretations and guidelines of the Board in reviewing the eligibility of the mortgage loan, in investigating the borrower's application and in verifying that the proposed mortgage loan is in compliance with Code requirements. In addition, the documentation for all mortgage loans will be reviewed by the staff of the Board. The Board believes, and Bond Counsel is of the opinion that, these

documentation requirements and procedures are sufficient for purposes of complying with the mortgage eligibility requirements of Section 143 of the Code.

Targeted Area requirement. The Code requires that a portion of the lendable proceeds of an issue be made available for owner financing of Targeted Area residences for at least one year after the date on which owner financing is first made available and that the issuer must proceed with reasonable diligence to place such proceeds in qualified mortgages.

"Targeted Areas" are defined in the Code to include census tracts with populations and income characteristics specified and other areas meeting criteria set forth and approved as Targeted Areas by the Secretaries of the United States Department of the Treasury and Department of Housing and Urban Development. The Code provides that the portion of lendable proceeds of an issue of bonds which must be made available for owner financing in such Targeted Areas be equal to the lesser of 20% of such lendable proceeds or 40% of the average annual aggregate amount of mortgages on owner-occupied residences executed in such Targeted Areas for the immediately preceding three years.

A listing of "qualified census tracts" published by the United States Department of the Treasury on August 10, 1981 indicated that one census tract in the State qualified as a Targeted Area under Section 103A of the Internal Revenue Code of 1954 (the "1954 Code"), the predecessor of Section 143. In addition to such census tract, the Secretaries of the Department of the Treasury and Department of Housing and Urban Development have approved the designation by the Board of eight counties in the State (Blaine, Deer Lodge, Flathead, Hill, Mineral, Missoula, Sanders and Silver Bow), the Town of Wyola and the City of Great Falls, Montana as Targeted Areas. The combined population of all such Targeted Areas is equal to approximately 35% of the population of the State. The Board intends to compute and set aside for one year from the date of delivery of any series of bonds at least 20% of the proceeds of such series of bonds as is required by the Code for the making of mortgage loans within such Targeted Areas.

MULTIFAMILY PROGRAM

General:

As of June 30, 1987, through its various programs, the Board has financed 668 multifamily housing units in the State. The Board has issued multifamily bonds and notes aggregating an initial principal amount of $24,410,000 in four series consisting of three parity issues under the Board's 1978 Multifamily Indenture and one construction loan note under a 1980 indenture. All Mortgage or Construction Loans financed under the Multifamily Program are or were insured by FHA. Bond and note proceeds were used to provide construction financing and to purchase permanent multifamily mortgage loans in the State for persons and families of lower income.

Portfolio Summary (as of June 30, 1987):

Series and Project	Location	Insurance Program	Units	Elderly(E) or Family(F)	Original Principal Amount	Outstanding Balance	Construction Loan Rate	Permanent Mortgage Loan Rate	Maturity of Mortgage Loan	Occupancy
Multifamily Program Bonds										
1978 Series A:										
Clark Fork Manor	Missoula	231	134	E	$4,628,000	$4,405,027	8%	7%	2019	98%
1979 Series A:										
Crestwood Inn	Sidney	221(d)(4)	72	E	2,188,500	2,116,035	9%	7.5%	2020	70%
Silver Bow Village	Butte	221(d)(4)	60	F	1,925,000	1,857,081	8.5%	7.5%	2021	100%
Broadview Manor	Great Falls	221(d)(4)	20	F	713,200	686,850	8.5%	7.5%	2021	100%
Oakwood Village	Havre	221(d)(4)	60	F	1,793,600	1,738,945	8.5%	7.5%	2021	100%
The Elmwoods	Great Falls	221(d)(4)	18	F	576,900	560,211	8.5%	7.5%	2021	100%
			230		7,197,200	6,959,122				
1982 Series A:										
Grand View Place	Missoula	221(d)(4)	48	F	1,695,200	1,685,911	12%	12%	2023	100%
Other:										
Miles Building	Livingston	221(d)(4)	40	F	1,081,885	NA	14.5%	NA	NA	NA
Cut Bank Hotel	Cut Bank	221(d)(4)	20	E	525,400	523,616	10%	11%	2025	75%
			60		1,607,285	523,616				
1980 Series A Construction Loan Notes:										
Cedar View	Malta	221(d)(4)	32	F	1,269,900	NA	11%	NA	NA	NA
Chair III	Whitefish	221(d)(4)	16	F	618,400	NA	11%	NA	NA	NA
El Dorita Village	Kalispell	221(d)(4)	36	F	1,092,000	NA	11%	NA	NA	NA
Rose Park Plaza	Billings	221(d)(4)	112	F	3,222,100	NA	11%	NA	NA	NA
			196		6,202,400	--				
			668		$21,330,085	$13,573,676				

All multifamily projects of the Board are insured by the Federal Housing Administration of the U.S. Department of Housing and Urban Development and 100% of the occupants of these projects receive rent subsidies under the HUD Section 8 program.

The loan management branch of the Housing Management Division of HUD requires an annual audit by an independent C.P.A. on all project loans insured by the FHA. This audit encompasses all aspects of mortgage debt including, but not limited to cash inflow and outflow, escrow accounts, reserves for replacement and surplus cash. In addition, FHA requires an annual report of occupancy under the terms of the Annual Contributions Contract for all Section 8 assisted projects.

The Board is furnished a monthly report by each Servicer that shows the status of each project loan including the respective escrow account levels.

Miles Building Rehabilitation Project, Livingston, Montana. The construction financing for the Miles Building Apartments in Livingston, Montana was provided, in part, from unspent bond proceeds from the 1979 issue of multifamily bonds, the available proceeds from the 1980 issue of Construction Loan Notes, and in part from excess earnings in the 1978 Multifamily Indenture. The long term financing for this project was provided by Federal National Mortgage Association.

Cut Bank Hotel Project, Cut Bank, Montana. The construction financing and long-term financing for the Cut Bank Hotel in Cut Bank, Montana was provided from excess earnings in the 1978 Multifamily Indenture.

Delinquencies and Liquidations:

There have been no significant delinquencies of the mortgage loans under the Multifamily Program.

For a period of time during late 1979 and 1980, the Crestwood Inn project was delinquent in its mortgage payments. During that period the Board took steps to effect a change in ownership to improve the management of this facility and to convert the mortgage insurance from Section 231 to Section 221(d)(4). With the change of ownership, the loan was brought current and has been current since then.

Conduit Financing:

On October 1, 1985, under an Indenture of Trust dated October 1, 1985, the Board issued its "Montana Board of Housing Multifamily Housing Revenue Bonds (Cowdrey Project)" (the "Bonds") in the principal amount of $800,000. In this transaction, the Board acted only as a conduit and the Bonds are not general obligations of the Board, but are special obligations payable solely from funds held thereunder by the Trustee.

Initially, the Indenture of Trust, the Official Statement, and the Bonds did not contain certain language which specified that the Board had assigned its obligations under the Indenture of Trust to the First Trust Company of Montana, as Trustee (the "Trustee") and that the Trustee had assumed such obligations, including the obligation to create, collect and administer funds, accounts or money, and to exercise or otherwise enforce all rights, remedies, responsibilities and obligations of the Board under the Indenture of Trust.

Subsequently, the Indenture of Trust and the Official Statement were amended and new Bonds were issued, and the Board has been advised by the law firm which acted as bond counsel and underwriter's counsel for the project that the revised language was incorporated in the amended documents and that the Bonds are payable solely from funds held under the Indenture of Trust.

Bond Counsel to the Board issued an approving legal opinion on said revisions.

FISCAL:

Summary of Assets:

The following table provides summary information with respect to the status of assets pledged under the Multifamily Indenture as of June 30, 1987:

Program Fund	
Mortgage Loans Net of Unamortized Discounts	$13,493,150
Cash and Temporary Investments	1,717,899
Debt Service Reserve Fund (1)	1,161,603
Mortgage Reserve Fund (2)	281,270
Revenue Fund (3)	766,189
Receivables	57,391
TOTAL ASSETS	$17,477,502

(1) Invested in authorized investments with maturities from 1987 through 1992.

(2) Invested in authorized investments with maturities from 1988 through 1991.

(3) Invested in authorized investments having maturities of one year or less.

Summary of Bonds Payable (in thousands):

	Original Amount	Outstanding Balance (as of June 30) 1987	1986
1978 Series A:			
Term Bonds (6.125%) due 2019	$ 4,865	$ 4,675	$ 4,740
Less Unamortized Costs of Issuance and Bond Premium	(45)	(25)	(36)
	4,820	4,650	4,704
1979 Series A:			
Serial Bonds (5.4% to 6.4%) due 1980-1999	1,625	1,230	1,290
Term Bonds (6.875%) due 2021	7,035	7,035	7,035
	8,660	8,265	8,325
Less Unamortized Costs of Issuance	(255)	(189)	(207)
	8,405	8,076	8,118
1982 Series A:			
Term Bonds (12.750%) due 2023	1,945	1,940	1,945
Less Unamortized Costs of Issuance and Bond Discount	(142)	(121)	(128)
	1,803	1,819	1,817
TOTAL	$15,028	$14,545	$14,639
1980 Series A Construction Loan Notes:			
Construction Loan Notes (8.15%)	$ 8,940	NA	NA

Based on the above, as of June 30, 1987, the ratio of total assets to total liabilities was 1.165046.

Summary of Revenues, Expenses, and Changes in Fund Balance (in thousands):

	Year Ended June 30,				
	1987	1986	1985	1984	1983
Revenues:					
Interest on Loans..	$ 1,088	$ 1,095	$ 1,067	$ 1,052	$ 1,054
Fee Income and Other Income.....	2	10	2	2	25
Interest on Investments......	284	314	350	341	385
	1,374	1,419	1,419	1,395	1,464
Expenses:					
Interest...........	1,093	1,097	1,102	1,108	1,112
Servicing Fees.....	17	17	17	17	15
Amortization of Deferred Financing Costs........	39	13	13	13	13
General, Administrative and Trustee Costs....	46	39	42	29	33
	1,195	1,166	1,174	1,167	1,173
Excess of Revenues Over Expenses......	179	254	245	228	291
Fund Balances, Beginning..........	2,297	2,043	1,798	1,570	1,279
Fund Transfers......					
Fund Balances, Ending.............	$ 2,476	$ 2,297	$ 2,043	$ 1,798	$ 1,570
Principal, Bonds & Notes Payable, Net of Premiums, Discounts, and Costs of Issuance..	$ 14,545	$ 14,639	$ 14,717	$ 14,766	$ 14,840

OPERATIONS

The Board utilizes computer-based mortgage portfolio accounting and control systems which enable it to: (i) monitor servicers in the performance of their functions; (ii) provide detailed accounting information; and (iii) profile the portfolios in various ways to obtain information for internal analysis on mortgage loans, mortgagors and properties.

The Board recently contracted with Application Oriented Designs, Inc., Coral Gables, Florida, to provide it with mortgage and general ledger accounting systems, and with an in-house computer. These systems replaced the previous computer operations and it has significantly enhanced the Board's ability to efficiently monitor its mortgage portfolios and its fiscal operations.

The Board also possesses the independent ability to produce cash flow information and analyses of its multifamily and single family programs on an in-house personal computer system.

Following is a combined summary of revenues and expenses for all funds for each of the five years as of fiscal year-end June 30. Certain amounts shown as Fund Balances are held in accounts under separate indentures of the Board and may not be withdrawn from such accounts unless certain asset and cash flow tests and reserve requirements under such indentures are met. This summary should be read in conjunction with the complete financial statements of the Board, which present the individual Fund Balances under each of the Board's indentures and are included in Appendix B.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE (in thousands)

	Year Ended June 30,				
	1987	1986	1985	1984	1983
Revenues:					
Interest on Loans..	$ 44,473	$ 43,384	$ 35,622	$ 25,707	$ 18,227
Fee Income and Other Income.....	65	1,437	1,954	2,186	1,277
Interest on Investments......	14,038	17,334	15,154	13,627	9,949
	58,576	62,155	52,730	41,520	29,453
Expenses:					
Interest...........	49,893	53,047	43,055	33,087	23,660
Servicing Fees.....	1,434	1,660	1,386	1,014	758
Amortization of Deferred Financing Costs........	1,283	1,241	592	456	319
Bond Redemption Expense..........	1,404	116	0	0	637
General, Administrative and Trustee Costs....	1,429	982	692	599	494
	55,443	57,046	45,725	35,156	25,868
Excess of Revenues Over Expenses......	3,133	5,109	7,005	6,364	3,585
Fund Balances, Beginning..........	40,114	35,005	28,000	21,636	18,051
Fund Transfers......					
Fund Balances, Ending.............	$ 43,247	$ 40,114	$ 35,005	$ 28,000	$ 21,636
Principal, Bonds & Notes Payable, Net of Premiums, Discounts and Costs of Issuance..	$540,625	$685,699	$504,346	$439,994	$331,806

LEGAL MATTERS

In the opinion of the Board's general counsel, there is no litigation pending that questions the validity of any of the Board's bonds or the power and authority of the Board to issue its bonds. There is no litigation pending which would materially affect the finances of the Board or affect the Board's ability to meet the debt service requirement on its bonds.

RATINGS

The Bonds of the Board are rated by Moody's Investors Service Inc. and Standard & Poor's Corporation. The ratings reflect only the views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of its ratings would be likely to have an adverse effect on the market price of the Board's bonds. The Board's bonds have never been downgraded and continue to carry the same ratings they have had since their original issuance. These ratings are as follows:

	Moody's Investors Service	Standard & Poor's Corporation
SINGLE FAMILY MORTGAGE BONDS		
1977 Series A	Aa	AA
1977 Series B	Aa	AA
1978 Series A	Aa	AA
1987 Series A	Aa	AA
1987 Series B		
1987 Series B-1	Aa	AA
1987 Series B-2	Aa/NR	AA/NR
SINGLE FAMILY PROGRAM BONDS		
1979 Series A	Aa	AA
1980 Series A	Aa	AA
1982 Series A	Aa	AA
1983 Series A	Aa	AA
1983 Series B	Aa	AA
1983 Series C	Aa	AA
1984 Series A	Aa	AA
1985 Series A	Aa	AA
1985 Series B	Aa	AA
1985 Series B-1	Aa	AA/A-1+
1985 Series B-2	Aa	AA/A-1+

	Moody's Investors Service	Standard & Poor's Corporation
MULTIFAMILY MORTGAGE BONDS		
1978 Series A	Aa	non-rated
1979 Series A	Aa	non-rated
1982 Series A	Aa	non-rated

THE MORTGAGE CREDIT CERTIFICATE PROGRAM

On December 4, 1986, the Montana Board of Housing converted $40 million of tax exempt bonding authority to issue Mortgage Credit Certificates (MCC's) in an aggregate credit amount of $10 million. The MCC program is authorized by the Tax Reform Act of 1984 and was implemented by the Board on July 27, 1987. The Board elected to issue the MCC's to lower income persons and families at a credit certificate rate of 20%. With an MCC, eligible homebuyers can receive a federal tax credit equal to 20% of annual mortgage loan interest paid on qualifying loans. Currently, 46 lending institutions have signed up to participate in the MCC program.

ADDITIONAL INFORMATION

This Annual Information Statement is submitted for the purpose of providing information relative to the Board. Any statements in this Annual Information Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Annual Information Statement is not to be construed as a contract or agreement between the Board and the purchasers or holders of any of its bonds.

FINANCIAL STATEMENTS

Included in Appendix B are the audited financial statements of the Board as of and for the years ended June 30, 1987 and 1986, together with the report thereon dated August 28, 1987 of Anderson ZurMuehlen & Co., P.C. Such audited statements have been included herein in reliance on the report of such firm as experts in auditing and accounting.

MONTANA BOARD OF HOUSING

Joan K Bennett

JOAN K. BENNETT, Chairman

As of October 1, 1987

APPENDIX A

SINGLE FAMILY SERVICERS AND GEOGRAPHIC DISTRIBUTION OF MORTGAGE LOANS

There are 163 lenders approved in the Board's Single Family Program and mortgage loans are serviced by 121 servicers. Mortgage loans have been made in 186 communities within the State. The following tables provide information with regard to the servicers and communities served under the combined 1977 and 1979 Indentures as of June 30, 1987:

	Five Largest Servicers	% of Loans Serviced
1.	Bancshares Mortgage Co.-Spokane, WA *	9.41%
2.	Norwest Bank Billings **	8.55%
3.	First Interstate Bank of Billings	7.78%
4.	First Bank Billings	4.28%
5.	Western Federal Savings & Loan-Missoula	3.92%

* Mortgage servicers are required to maintain offices in the State. Bancshares Mortgage Co. has an office in Billings.

** Performs servicing function for all approved Norwest banks in Montana.

	Five Largest Counties by Volume of Loans Made (as of June 30, 1987)	% of Total Loans Based on Par Value of Mortgages at Time of Purchase by Board
1.	Yellowstone	29%
2.	Cascade	16%
3.	Missoula	15%
4.	Flathead	8%
5.	Lewis & Clark	7%

APPENDIX B

MONTANA BOARD OF HOUSING

Report on Examination
of Financial Statements

Year Ended June 30, 1987

MONTANA BOARD OF HOUSING

FINANCIAL REPORT

JUNE 30, 1987

CONTENTS

ANDERSON ZURMUEHLEN & CO., P.C.
Certified Public Accountants
Power Block Building • Second Floor
6th & Last Chance Gulch • P.O. Box 1147, Helena, MT 59624 • (406) 442-3540

To the Members of the
Montana Board of Housing
Helena, Montana

We have examined the accompanying individual and combined balance sheets of the various funds of the Montana Board of Housing as of June 30, 1987 and the combined balance sheet as of June 30, 1986, and the related statements of revenues, expenses and changes in fund balances, and changes in financial position for the years then ended with respect to all funds. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the financial position of the various funds of the Montana Board of Housing as of June 30, 1987 and 1986, and the results of their operations and changes in their financial position for the periods then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Anderson ZurMuehlen & Co., P.C.

Helena, Montana
August 28, 1987

MONTANA BOARD OF HOUSING
BALANCE SHEETS
June 30, 1987 and 1986

	JUNE 30, 1987	
ASSETS	SINGLE FAMILY I MORTGAGE PROGRAM FUNDS	SINGLE FAMILY II MORTGAGE PROGRAM FUNDS
Cash and investments (Notes 2, 4 and 7)	$ 35,521,688	$ 93,779,442
Mortgage loans (Note 8)	46,418,590	386,783,722
Interest receivable:		
Investments	323,829	2,147,485
Mortgage loans	318,485	4,432,000
Interfund receivable (payable)	65,595	(28,834)
Fixed assets, net	-	-
Total Assets	$ 82,648,187	$487,113,815
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Bonds payable, net (Note 6)	$ 70,062,752	$456,017,208
Interest payable	860,140	3,176,582
Accounts payable	149,524	135,585
Total liabilities	71,072,416	459,329,375
FUND BALANCES (Notes 1 and 3)		
Restricted	11,575,771	27,784,440
Unrestricted	-	-
Total fund balances	11,575,771	27,784,440
Total Liabilities and Fund Balances	$ 82,648,187	$487,113,815

The Notes to Financial Statements are an integral part of these statements.

	JUNE 30, 1987				JUNE 30, 1986
	MULTIFAMILY MORTGAGE PROGRAM FUNDS	BONDHOLDER RESERVE FUNDS	FINANCIAL PROGRAM FUNDS	COMBINED TOTAL	COMBINED TOTAL
	$ 3,926,962	$ 1,381,151	$ 92,107	$134,701,350	$238,411,922
	13,493,150	-	-	446,695,462	486,137,564
	80,998	8,008	157	2,560,477	4,551,265
	90,849	-	-	4,841,334	4,712,572
	(114,457)	-	77,696	-	-
	-	-	115,723	115,723	138,199
	$ 17,477,502	$ 1,389,159	$ 285,683	$588,914,346	$733,951,522
	$ 14,545,331	$ -	$ -	$540,625,291	$685,698,595
	456,224	-	-	4,492,946	7,773,742
	-	-	263,816	548,925	364,625
	15,001,555	-	263,816	545,667,162	693,836,962
	2,475,947	-	-	41,836,158	38,781,668
	-	1,389,159	21,867	1,411,026	1,332,892
	2,475,947	1,389,159	21,867	43,247,184	40,114,560
	$ 17,477,502	$ 1,389,159	$ 285,683	$588,914,346	$733,951,522

MONTANA BOARD OF HOUSING
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
For the Years Ended June 30, 1987 and 1986

	JUNE 30, 1987	
	SINGLE FAMILY I MORTGAGE PROGRAM FUNDS	SINGLE FAMILY II MORTGAGE PROGRAM FUNDS
Revenues		
Interest income on mortgage loans	$ 3,404,224	$ 39,980,920
Interest income on investments	998,852	12,671,677
Fee income	4,623	57,783
Investment gain (loss), net	-	-
Other income	-	630
Total revenues	4,407,699	52,711,010
Expenses		
Interest	2,965,959	45,834,089
Servicer fees	184,654	1,232,493
Amortization of deferred issuance costs	52,528	1,191,697
General and administrative	-	-
General and administrative expense allocation	93,317	1,284,391
Total expenses	3,296,458	49,542,670
Revenues over expenses before extraordinary item	1,111,241	3,168,340
Extraordinary item (Note 10)	-	(1,404,143)
Revenues over expenses	1,111,241	1,764,197
Unrestricted fund balances, beginning of period	-	-
Transfers to (from)	(1,111,241)	(1,764,197)
Unrestricted fund balances, end of period	-	-
Restricted fund balances, beginning of period	10,464,530	26,020,243
Transfers to (from)	1,111,241	1,764,197
Restricted fund balances, end of period	11,575,771	27,784,440
Total fund balances	$ 11,575,771	$ 27,784,440

The Notes to Financial Statements are an integral part of these statements.

JUNE 30, 1987				JUNE 30, 1986
MULTIFAMILY MORTGAGE PROGRAM FUNDS	BONDHOLDER RESERVE FUNDS	FINANCIAL PROGRAM FUNDS	COMBINED TOTAL	COMBINED TOTAL
$ 1,087,942	$ -	$ -	$ 44,473,086	$ 43,383,904
283,857	8,008	75,598	14,037,992	17,350,044
-	-	-	62,406	1,083,454
-	-	(483)	(483)	(16,373)
2,216	-	-	2,846	353,823
1,374,015	8,008	75,115	58,575,847	62,154,852
1,093,032	-	-	49,893,080	53,046,762
17,083	-	-	1,434,230	1,659,886
38,950	-	-	1,283,175	1,240,682
-	-	1,430,152	1,430,152	978,916
45,898	-	(1,425,163)	(1,557)	3,079
1,194,963	-	4,989	54,039,080	56,929,325
179,052	8,008	70,126	4,536,767	5,225,527
-	-	-	(1,404,143)	(116,282)
179,052	8,008	70,126	3,132,624	5,109,245
-	-	1,332,892	1,332,892	1,915,004
(179,052)	1,381,151	(1,381,151)	(3,054,490)	(5,691,357)
-	1,389,159	21,867	1,411,026	1,332,892
2,296,895	-	-	38,781,668	33,090,311
179,052	-	-	3,054,490	5,691,357
2,475,947	-	-	41,836,158	38,781,668
$ 2,475,947	$ 1,389,159	$ 21,867	$ 43,247,184	$ 40,114,560

MONTANA BOARD OF HOUSING
STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Years Ended June 30, 1987 and 1986

	JUNE 30, 1987	
	SINGLE FAMILY I MORTGAGE PROGRAM FUNDS	SINGLE FAMILY II MORTGAGE PROGRAM FUNDS
SOURCES		
From operations:		
Revenues over expenses, before extraordinary items	$ 1,111,241	$ 3,168,340
Amortization of bond premiums, discounts, depreciation, issuance costs, and mortgage discounts, net	52,528	4,994,057
Changes in accounts:		
Interest receivable:		
Investments	(59,574)	2,040,453
Mortgages	16,234	(150,325)
Interfund (receivable) payable	93,531	(263,305)
Accounts payable	149,524	99,585
Interest payable	101,083	(3,379,076)
Deferred fee income	-	-
Cash and investments provided by operations	1,464,567	6,509,729
Mortgage payments:		
Scheduled	1,124,470	4,972,951
Prepaid	2,755,875	44,135,854
Net proceeds from bond sales	19,965,218	-
Total	25,310,130	55,618,534
USES		
Extraordinary item	-	1,404,143
Repayments of bonds payable	2,490,000	167,409,023
Purchase of mortgage loans	118,692	12,938,772
Payments of issuance costs	529,618	141,540
Purchase of fixed assets	-	-
Total	3,138,310	181,893,478
Increase (decrease) in cash and investments	22,171,820	(126,274,944)
Cash and investments, beginning of period	13,349,868	220,054,386
Cash and investments, end of period	$ 35,521,688	$ 93,779,442

The Notes to Financial Statements are an integral part of these statements.

JUNE 30, 1987				JUNE 30, 1986
MULTIFAMILY MORTGAGE PROGRAM FUNDS	BONDHOLDER RESERVE FUNDS	FINANCIAL PROGRAM FUNDS	COMBINED TOTAL	COMBINED TOTAL
$ 179,052	$ 8,008	$ 70,126	$ 4,536,767	$ 5,225,527
41,883	-	22,476	5,110,944	3,982,302
(5,123)	(8,008)	23,040	1,990,788	(1,965,557)
5,329	-	-	(128,762)	(1,031,497)
45,888	1,381,151	(1,257,265)	-	-
-	-	(64,809)	184,300	278,870
(2,803)	-	-	(3,280,796)	3,326,293
-	-	-	-	(7,881)
264,226	1,381,151	(1,206,432)	8,413,241	9,808,057
83,607	-	-	6,181,028	5,753,104
-	-	-	46,891,729	18,392,537
-	-	-	19,965,218	199,996,487
347,833	1,381,151	(1,206,432)	81,451,216	233,950,185
-	-	-	1,404,143	116,282
130,000	-	-	170,029,023	19,160,000
-	-	-	13,057,464	73,293,199
-	-	-	671,158	3,289,959
-	-	-	-	129,918
130,000	-	-	185,161,788	95,989,358
217,833	1,381,151	(1,206,432)	(103,710,572)	137,960,827
3,709,129	-	1,298,539	238,411,922	100,451,095
$ 3,926,962	$ 1,381,151	$ 92,107	$134,701,350	$238,411,922

1. Authorizing Legislation and Funds:

AUTHORIZING LEGISLATION:

The Montana Board of Housing is a quasi-judicial board created in 1975 by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any one time may not exceed $975,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged to the payment of amounts so issued.

SINGLE FAMILY I MORTGAGE PROGRAM FUNDS:

These funds, established under a trust indenture adopted March 10, 1977, and amended July 28, 1977, June 13, 1978 and June 1, 1987 are prescribed for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, limited to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by the Veterans Administration.

SINGLE FAMILY II MORTGAGE PROGRAM FUNDS:

These funds, established under a trust indenture adopted August 16, 1979, and amended April 20, 1980, April 6, 1982, February 10, 1983, April 8, 1983, November 4, 1983, August 24, 1984, August 1, 1985, November 1, 1985, and December 6, 1985 are prescribed for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, limited to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by the Veterans Administration.

MULTIFAMILY MORTGAGE PROGRAM FUNDS:

These funds, established under a trust indenture adopted February 23, 1978 and amended June 26, 1979 and May 27, 1982, are prescribed for accounting for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for the construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans must be insured by the Federal Housing Administration.

1. Authorizing Legislation and Funds (Continued):

BONDHOLDER RESERVE FUNDS:

These funds were transferred from the Financial Program Funds and established as a separate entity by a resolution of the Montana Board of Housing, adopted June 11, 1987. The Bondholder Reserve Fund was created in order to provide for enhanced bondholder security. Uses are restricted to program purposes as defined by the Board's Single Family I Program or as determined by the Montana Board of Housing.

FINANCIAL PROGRAM FUNDS:

These funds were established by a resolution of the Montana Board of Housing, adopted August 14, 1981. Uses are restricted to program purposes as determined by the Montana Board of Housing and the funds collateralize general obligations of the Board. Uses during the year ended June 30, 1987 included the payment of direct expenses incurred in connection with the Board's anticipated Mortgage Credit Certificate Program.

2. Summary of Significant Accounting Policies:

COMBINED TOTALS:

The combined total column includes the accounts of all funds of the Board and is presented for comparative purposes only. Assets are restricted and are not available for any purpose other than as provided for under the respective bond indenture or Board resolution.

BASIS OF ACCOUNTING:

The Board follows the accrual basis of accounting.

CASH AND INVESTMENTS:

Generally, the Board's investments are restricted to U. S. Government and Agency obligations and collateralized bank obligations. Investments, which are generally intended to be held to maturity, are reported at amortized cost.

MORTGAGE LOANS AND FORECLOSED PROPERTY:

Permanent mortgage loans are carried at their uncollected principal balances. Unearned discounts on mortgage loans are accreted to earnings over the remaining life of the mortgage loans.

Foreclosed property represents the uncollected principal balance of foreclosed loans, net of insurance/guaranty payments applied to the principal and real property conveyed to the Board as part of the insurance/guaranty settlement.

2. Summary of Significant Accounting Policies (Continued):

FEE INCOME:

Fees collected as reimbursement for costs incurred in developing and implementing the programs of the Board and for other specific services are recorded as income in the period received. Reservation fees collected in connection with single family mortgages are recorded as income over the reservation period. Commitment fees collected in connection with Multifamily Mortgages are deferred until the end of the respective construction period.

BOND PREMIUMS, DISCOUNTS AND COSTS OF ISSUANCE:

Bond premiums and discounts are accreted or amortized, using the interest method, over the life of the bonds to which they relate. Costs of issuance, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds.

INTEREST RECEIVABLE - MORTGAGE LOANS AND FORECLOSED PROPERTY:

Interest is accrued based upon the amount of outstanding mortgage loan principal. Not more than six (6) months interest is accrued or recognized as income on loans in arrears or under some phase of liquidation.

Interest accrues on foreclosed property from the last interest "paid to" date to the date the first insurance/guaranty proceeds are received. Interest receivable is carried net of insurance/guaranty proceeds collected and applied to interest receivable.

FIXED ASSETS:

Fixed assets, which consists principally of computers and software, are carried at cost less accumulated depreciation. Depreciation is provided for utilizing the straight-line method. Useful lives are estimated to range from 3 to 20 years.

3. Fund Balances:

Bond program fund balances are restricted by the respective trust indentures. The indentures permit the withdrawal of funds subject to the discretion of the Board of Housing and compliance with certain asset coverage and cash flow tests. The Bondholder Reserve Funds and the Financial Program Funds balances are not restricted by a trust indenture, but remain pledged to the Board's bond holders as general obligations of the Montana Board of Housing. The Montana Board of Housing has made an appropriation of the Single Family I fund balance necessary to meet the Principal Requirement and Interest Requirement of the indenture. Fund balances so appropriated at June 30, 1987 and 1986 were $4,224,356 and $4,003,415, respectively.

4. Restricted Assets:

Portions of cash and investments are restricted to uses specified by applicable bond indentures. Amounts are restricted as follows:

June 30, 1987	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds	Multifamily Mortgage Program Funds
Debt service reserve	$ 7,540,000	$50,263,697	$ 1,150,000
Mortgage reserve	810,100	4,264,686	275,840
	$ 8,350,100	$54,528,383	$ 1,425,840

June 30, 1986	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds	Multifamily Mortgage Program Funds
Debt service reserve	$ 5,840,000	$64,309,251	$ 1,150,000
Mortgage reserve	637,500	5,186,893	275,840
	$ 6,477,500	$69,496,144	$ 1,425,840

Cash and investments on hand in the aforementioned reserve funds at June 30, 1987 and 1986 meet or exceed the requirements of the respective trust indentures.

5. Administrative and Other Operating Costs:

Administrative and other operating costs are paid out of the Board's own funds. Expenses identifiable to specific programs are directly allocated. Other expenses are allocated based upon the relationship that direct expenses bear to total direct expenses. For the years ended June 30, 1987 and 1986, the Board was attached, for administrative purposes, to the Department of Commerce and incurred expenses of $35,589 and $31,867, respectively, for support services.

6. Bonds Payable, Net:

	ORIGINAL AMOUNT
Single Family I Mortgage Bonds:	
1977 Series A, 4.5% to 8% interest, maturing in scheduled annual installments from October 1, 1980 to October 1, 1992 and on October 1, 2008, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1993 and to optional redemption after various dates at prices ranging from 100 to 103	$ 21,470,000
1977 Series B, 4.15% to 8% interest, maturing in scheduled annual installments from October 1, 1980 to October 1, 1992 and on October 1, 2008, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1993 and to optional redemption after various dates at prices ranging from 100 to 103	$ 35,060,000
1978 Series A, 5.05% to 8% interest, maturing in scheduled annual installments from October 1, 1980 to October 1, 1997 and on October 1, 2003 and October 1, 2009, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1998 and to optional redemption after various dates at prices ranging from 100 to 103	$ 13,600,000
1987 Series A, 5.30% to 8.625% interest, maturing in scheduled annual installments from April 1, 1988 to April 1, 2000 and on April 1, 2018, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2001, to optional redemption after various dates at prices ranging from 100 to 102 and special optional redemption from unexpended proceeds, termination payments from any series under the indenture or any excess amounts under the indenture	$ 20,000,000
Bonds outstanding	
Unamortized bond discount and issuance costs	
Bonds payable, net	
Single Family II Mortgage Bonds:	
1979 Series A, 5.10% to 6.6% interest, maturing in scheduled annual installments from June 1, 1981 to June 1, 1997, and on June 1, 2000 and June 1, 2011, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1998 and to optional redemption after various dates at prices ranging from 100 to 102 1/2	$100,000,000
1980 Series A, 7.70% to 9% interest, maturing in scheduled annual installments from June 1, 1982 to June 1, 2000, and on June 1, 2012, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2001 and to optional redemption after various dates at prices ranging from 100 to 103	$ 50,000,000

June 30, 1987	1986
$ 15,475,000	$ 16,250,000
25,735,000	26,965,000
10,210,000	10,695,000
20,000,000	-
71,420,000	53,910,000
(1,357,248)	(845,376)
$ 70,062,752	$ 53,064,624
$ 83,645,000	$ 87,815,000
41,105,000	43,030,000

6. Bonds Payable, Net (Continued):

	ORIGINAL AMOUNT
Single Family II Mortgage Bonds (Continued):	
1982 Series A, 8.5% to 13.5% interest, maturing in scheduled annual installments from June 1, 1984 to June 1, 1996, and on June 1, 2002 and 2008, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1997 and to optional redemption after various dates at prices ranging from 100 to 103	$ 55,000,000
1983 Series A, 5.25% to 9.875% interest, maturing in scheduled annual installments from June 1, 1984 to June 1, 1998, and on June 1, 2003 and 2009, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1999 and to optional redemption after various dates at prices ranging from 100 to 103	$ 30,000,000
1983 Series B, 8% to 9.625% interest, maturing in scheduled annual installments from June 1, 1991 to June 1, 1996, and on and June 1, 2003 and 2009, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1997 and to optional redemption after various dates at prices ranging from 100 to 103	$ 55,000,000
1983 Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1997 and to optional redemption after various dates at prices ranging from 100 to 103. Serial and term bonds mature in scheduled semi-annual installments from June 1, 1984 to December 1, 2002. CAB bonds are reported at an accreted value, and are scheduled for redemption, in part, in semi-annual installments commencing June 1, 2003 to June 1, 2010	$114,998,229
1984 Series A, serial, term and CAB bonds, 7.0% to 10.375% interest, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1999 and to optional redemption after various dates at prices ranging from 100 to 103. Serial and term bonds mature in scheduled annual installments from June 1, 1986 to June 1, 2004. CAB bonds are reported at an accreted value, and are scheduled for redemption, in part, in annual installments commencing June 1, 2005 to June 1, 2010	$ 75,002,290

June 30, 1987	June 30, 1986
13,200,000	26,250,000
24,200,000	28,810,000
49,195,000	55,000,000
103,092,381	113,525,986
69,879,298	74,336,810

6. Bonds Payable, Net (Continued):

	ORIGINAL AMOUNT
Single Family II Mortgage Bonds (Continued):	
1985 Series A, serial, term, CAB and Postponed Revenue on Future Income Tax - Exempt Securities (PROFITS) 5.5% to 9.75% interest, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1999 and to optional redemption after various dates at prices ranging from 100 to 102. Serial and term bonds mature in scheduled semi-annual installments from December 1, 1986 to December 1, 1998, June 1, 2005 to June 1, 2010, and December 1, 2013 to June 1, 2015. CAB bonds are reported at an accreted value, and scheduled for redemption, in part, in semi-annual installments commencing June 1, 1999 to December 1, 2004 and December 1, 2015 to June 1, 2016. PROFITS are reported at accreted value, and begin to pay interest semi-annually, scheduled for redemption, in part, in semi-annual installments commencing December 1, 2010 to June 1, 2013	$ 39,999,625
1985 Series B, serial, term, CAB and Postponed Revenue on Future Income Tax Exempt Securities (PROFITS), 5.7% to 9.75% interest subject to mandatory sinking fund requirements of scheduled amounts commencing in 2003 and to optional redemption after various dates at prices ranging from 100 to 102. Serial and term bonds mature in scheduled semi-annual installments from June 1, 1987 to December 1, 1995, June 1, 2003 to June 1, 2011, and June 1, 2014 to June 1, 2017. CAB bonds are reported at accreted value, and are scheduled for redemption, in part, in semi-annual installments commencing June 1, 1996 to December 1, 2002. PROFITS are reported at accreted value, begin to pay interest semi-annually on June 1, 1997 and are subject to mandatory redemption commencing December 1, 2011 to December 1, 2013	$ 74,996,862
1985 Series B-1 and B-2, serial and term bonds, 5.75% to 6% interest, subject to special redemptions on Reset Dates (July 1, 1986 and October 1, 1986); these bonds were redeemed on their October 1, 1986 reset date	$ 85,000,000
Bonds outstanding	
Unamortized bond discounts and issuance costs	
Bonds payable, net	

June 30, 1987	June 30, 1986
39,327,793	40,418,898
41,565,310	75,455,555
-	85,000,000
465,209,782	629,642,249
(9,192,574)	(11,646,875)
$456,017,208	$617,995,374

6. Bonds Payable, Net (Continued):

	ORIGINAL AMOUNT
Multifamily Mortgage Bonds:	
1978 Series A, 6.125%, interest, maturing August 1, 2019, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1980 and to optional redemption after various dates at prices ranging from 103 to 105	$ 4,865,000
1979 Series A, 5.4% to 6.875% interest, maturing in scheduled annual installments from August 1, 1980 to August 1, 1999 and on August 1, 2021, subject to mandatory sinking fund requirements of scheduled amounts commencing in 2000 and to optional redemption after various dates at prices ranging from 100 to 103	$ 8,660,000
1982 Series A, 12.75% interest, maturing August 1, 2023, subject to mandatory sinking fund requirements of scheduled amounts commencing in 1986 and to optional redemption after various dates at prices ranging from 100 to 103	$ 1,945,000
Bonds outstanding	
Unamortized bond premiums	
Unamortized bond discounts and issuance costs	
Bonds payable, net	

The income and assets held under the three indentures are pledged for the payment of principal and interest on the bonds issued under the respective indentures. Interest on all outstanding bonds, other than CAB's and PROFITS, is payable semi-annually.

Scheduled bond principal requirements for the five fiscal years subsequent to June 30, 1987 are as follows:

	Single Family I Mortgage Program Funds	Single Family II Mortgage Program Funds	Multifamily Mortgage Program Funds
1988	$ 2,835,000	$14,145,000	$ 105,000
1989	2,780,000	14,815,000	115,000
1990	2,570,000	15,360,000	120,000
1991	2,575,000	16,455,000	125,000
1992	2,575,000	17,505,000	130,000

June 30, 1987	June 30, 1986
$ 4,675,000	$ 4,740,000
8,265,000	8,325,000
1,940,000	1,945,000
14,880,000	15,010,000
71,454	73,670
(406,123)	(445,073)
$ 14,545,331	$ 14,638,597

7. Cash and Investments:

At June 30, 1987, the Board had deposits of $3,545,209 of which $1,301,637 was insured by FDIC. Trustee/co-trustee banks held collateral for the balance.

The Trust Indentures restrict investment obligations to any of the following which at the time are legal investments for fiduciaries under the laws of the State of Montana:

> U. S. Treasury, U. S. agencies, direct obligations of the State or any political subdivision of the State rated in either of its two highest rating categories by a nationally recognized bond rating agency, public bonds and notes fully secured as to payment of principal and interest by a payment agreement with the United States of America, repurchase agreements with U. S. Treasury or U. S. agency obligations as the underlying securities, and certificates of deposit with Federal Reserve System member banks or any Federal Savings and Loan Insurance Corporation member savings and loan association with U. S. Treasury or U. S. agency obligations as collateral to the extent not insured.

The Board's investments at June 30, 1987, which consisted of uninsured and unregistered investments, were held by the trustees in the Board's name as follows:

	Carrying Amount	Market Value
U. S. Treasury	$ 64,927,781	$ 75,925,144
U. S. agencies	65,794,359	65,918,000
Repurchase agreements	434,000	434,000
Total investments	$131,156,140	$142,277,144

8. Mortgage Loans:

	June 30, 1987	June 30, 1986
Single Family I Program:		
Mortgage loans receivable, bearing interest at rates varying from 6.875% to 7.50%, original terms ranging from 25-30 years, FHA insured or VA guaranteed	$ 46,393,554	$ 50,180,243
Foreclosed property, net	25,036	-
	46,418,590	50,180,243
Single Family II Program:		
Mortgage loans receivable, bearing interest at rates varying from 7.75% to 12.5%, original terms ranging from 25-30 years, FHA insured or VA guaranteed	391,606,520	428,067,147
Unamortized mortgage discounts	(5,117,909)	(5,696,248)
Foreclosed property, net	295,111	4,516
	386,783,722	422,375,415

8. Mortgage Loans (Continued):

	June 30, 1987	June 30, 1986
Multifamily Program:		
Mortgage loans receivable, bearing interest at rates ranging from 7% to 12%, 40 year term, FHA insured	13,573,677	13,657,284
Unamortized mortgage discounts	(80,527)	(75,378)
	13,493,150	13,581,906
Combined total	$446,695,462	$486,137,564

9. Retirement System:

The Board and its employees make contributions to the Montana Public Employees Retirement System (PERS) defined benefit plan. The Board's contributions were $18,940 and $17,096 for the years ended June 30, 1987 and 1986, respectively. The Board is making all required contributions to the plan which is administered by the State of Montana.

10. Extraordinary Item

During the year ended June 30, 1986, the Board redeemed prior to scheduled maturity, $5,560,000 of 1982 Series A Single Family II mortgage bonds. During the year ended June 30, 1987, the Board redeemed prior to scheduled maturity $33,625,332, $7,020,000, $10,490,000, $15,595,000 and $12,505,000 of Single Family II mortgage bonds on August 15, 1986, December 1, 1986, January 1, 1987, April 1, 1987 and June 1, 1987, respectively. All such bonds were redeemed at par or 100% of their compounded value to the date of redemption. Unamortized discounts and costs of issuance relating to the bonds redeemed were expensed at the time of redemption and are reported as an extraordinary item.

11. Conduit Financing

Under an Indenture of Trust dated October 1, 1985, the Board issued its "Montana Board of Housing Multifamily Housing Revenue Bonds (Cowdrey Project)" in the principal amount of $800,000. In this transaction, the Board acted only as a conduit and the bonds are not general obligations of the Board, but are payable solely from project funds held thereunder. As these bonds are not an obligation of the Board, they are not reflected in the accompanying financial statements.

12. Commitments and Contingencies:

The Board has entered into a lease agreement for its office space. Minimum non-cancellable future lease commitments at June 30, 1987 were as follows:

1988	$ 26,700
1989	$ 26,700

In November 1986, the Board passed a resolution directing staff to utilize Single Family II mortgage prepayments to call outstanding bonds. It is anticipated that future calls will be made on a recurring basis.

At June 30, 1987 the Board was committed to acquire or had reserved funds to purchase mortgages totalling $21,487,581.

The Board has been named defendant in a lawsuit initiated by an employee. The suit alleges personal injury resulting from certain actions and management practices of the Board. The plaintiff seeks compensatory damages of approximately $6,000. Also sought are unspecified future medical damages, as well as unspecified general and punitive damages. Because this case is in the early stages of discovery, the Board has not determined the ultimate defensive posture it will take, nor has counsel been able to evaluate the possible outcome of the case. Losses suffered by the Board in this matter, if any, appear to be recoverable through insurance administered by the State of Montana.

The former trustee of the Single Family II Indenture has asserted a claim for services in the amount of $110,199. The Board is of the belief that the amount is not due the trustee. The Board is seeking to settle this matter.

13. Subsequent Events:

In August of 1987, the Board resolved to make available for purchase an additional $500,000 of Single Family mortgages from existing funds. At the same time, a low-income Single Family project mortgage set aside in the amount of $1,200,000 was returned. The Board authorized the October 1, 1987 call of $10,460,000 of Single Family II bonds.

APPENDIX C

MORTGAGE INSURANCE AND GUARANTEES

The following description of certain mortgage insurance and guaranty programs is only a brief outline and does not purport to summarize or describe all of the provisions of these programs. For a more complete description of the terms of these programs, reference is made to the provisions of the insurance and guaranty contracts embodied in the regulations of the Federal Housing Administration ("FHA") and the Veterans Administration (the "VA"), respectively.

Federal Housing Administration Mortgage Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ in some respects depending primarily upon whether the mortgaged premises contain five or more dwelling units or less than five units. The FHA imposes loan-to-value ratio limitations and other requirements on the single family mortgage loans it insures. Under the Section 203(b) program, which is the most widely used FHA insurance program, FHA insures mortgage loans of up to 30 years duration for the purchase of one-to-four family dwelling units. Loans insured under the Section 203(b) program which exceed $50,000 may not exceed 97% of the first $25,000 of the property's appraised value and 95% of the balance thereafter, up to a $75,500 maximum, for a one family residence, as established by the United States Department of Housing and Urban Development ("HUD"). Loans insured under the Section 203(b) program which do not exceed $50,000 may not exceed 97% of the appraised value of the property for a one family residence.

The regulations governing all of the FHA programs under which the Board's mortgage loans may be insured provide that insurance benefits are payable either upon foreclosure, or other acquisition, and conveyance of the mortgaged premises to HUD or upon assignment of the defaulted mortgage loan to HUD. Assignment is allowed only with HUD approval. With respect to the assignment of mortgaged premises containing less than five dwelling units to HUD, mortgagees must first make a determination as to whether or not the default is caused by a circumstance or set of circumstances beyond the mortgagor's control, which temporarily renders the family financially unable to cure the delinquency within a reasonable time or make full mortgage payments. If a determination is made that the default is caused by such circumstances, HUD must be requested to accept assignment and must reject the request before the mortgagee may initiate foreclosure proceedings. The FHA insurance that may be provided under these programs upon conveyance of the mortgaged premises to HUD is equal to 100% of the outstanding principal balance of the mortgage loan, plus interest, as explained below, and certain additional costs and expenses.

The Housing Act gives discretionary authority to the Secretary of HUD to settle claims for insurance benefits under mortgages insured under Section 203(b) either in cash or debentures. Presently, the Federal Housing Commissioner (the "Commissioner") is paying claims under Section 203(b) in cash and has not paid claims in debentures since 1965. The current regulations for Section 203(b), however, preserve the settlement option in favor of the Commissioner.

When entitlement to insurance benefits results from foreclosure (or other acquisition of possession) and conveyance, the insurance payment is computed as of the date of default by the mortgagor, which, under HUD regulations, will occur not less than 60 days after due date of a mortgage payment, and the mortgage holder generally is not compensated for mortgage interest accrued and unpaid prior to that date. Under such circumstances, the amount of insurance benefits generally paid by FHA is equal to the unpaid principal amount of the mortgage loan, adjusted to reimburse the mortgagee for such costs and attorney's fees as the Commissioner finds were properly incurred in connection with the defaulted mortgage and its assignment to the Commissioner and to deduct certain amounts received or retained by the mortgagee after default. When entitlement to insurance benefits results from assignment of the mortgage loan to HUD, the insurance payment is computed as of the date of the assignment and includes full compensation for mortgage interest accrued and unpaid to the assignment date. The regulations under all insurance programs described above provide that the insurance payment, when paid in cash, shall bear interest from the date of default, or, where applicable, assignment to the date of payment of the claim at the same interest rate as the applicable HUD debenture interest rate determined in the manner set forth above.

When any property to be conveyed to HUD or subject to a mortgage to be assigned to HUD has been damaged by fire, earthquake, flood or tornado, it is required, as a condition to payment of an insurance claim, that such property be repaired, except in certain circumstances, by the mortgage holder prior to such conveyance or assignment.

To obtain title to and possession of the property upon foreclosure, the Board will pursue its rights under the power of sale contained in the mortgage subject to the constraints imposed by applicable State law and by HUD. The HUD constraints require that, absent the consent of the mortgagor, at least three full monthly installments be due and unpaid under the mortgage before the mortgagee may initiate any action leading to foreclosure of the mortgage. The regulations also require a face-to-face conference between the mortgagee and the mortgagor in an effort to cure the delinquency without foreclosure.

Veterans Administration Guaranty Program

The VA is authorized by Chapter 37 of Title 38 of the United States Code to make mortgage loan guarantees for the purchase by veterans of one-to-four family dwelling units at interest rates not exceeding the maximum interest rate set by the VA from time to time. This program has no mortgage loan amount limitations, requires no downpayment from the purchaser and permits the guaranty of mortgage loans of up to thirty years and thirty-two days duration. The maximum guaranty that may be issued by the VA under this program is 60% of the original principal amount of the mortgage loan or $27,500, whichever is less. The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the outstanding principal amount of the mortgage loan, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, the mortgagee will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of the mortgaged premises is greater than the original guaranty as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to the mortgagee of the unsatisfied indebtedness upon assignment of the mortgage to the VA.

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